

ITEM NO.	SUBJECT	REF
	ADJUSTMENT BUDGET REPORT- FEBRUARY 2014	

REPORT TO : COUNCIL
DATE : 27 FEBRUARY 2014
DIRECTORATE : BUDGET AND TREASURY OFFICE
AUTHOR : BUDGET OFFICER

PURPOSE

To seek Council approval in terms of section 28 of the Municipal Finance Management Act of 2003, for the 2013/14 adjustment budget.

PART 1

1.1 MAYOR'S REPORT

His worship the Mayor started his speech by emphasizing the importance of sticking to the Vision and Mission of Hlabisa Municipality as these are the keys in uplifting the lives of our local community.

Vision

" A prosperous and sustainable municipality ensuring the provision of basic services, skills, quality life and economic opportunities"

Mission Statement

- Exploring and exploiting natural resources and opportunities that we have,
- Through cooperative and collaborative working relations with all stakeholders, and
- Eradicating the vicious cycles of poverty, unemployment and other social ills.
- By enhancing our systems and processes to promote good governance,
- By upholding BATHO PELE Principles

Although our municipality is located in a rural place that is mostly harmed by high rate of unemployment, Illiteracy and other negative factors that hinder progress and service delivery to the local community. Hlabisa Local Municipality intend to do more with the available resources in order to enhance service delivery that aims at improving the quality of life for all people within it geographical area, Adjustment Budgeting is essential about choices that the municipality has to make between competing priorities and fiscal realities. As Hlabisa Municipality we need to remain focused on the effective and efficient delivery of core municipal services. The application of sound financial management principles is crucial to ensure that the municipality remains financial viable, and that sustainable municipal services are provided to the community at large.

In support to our objective of improving peoples life's through service delivery with the usage of available resources, the municipality has considered the following Turnaround strategies:

- Good corporate governance

- Transformation of infrastructure
- Financial viability and sustainability
- Management change and organisational review

A detailed delivery agreement has been developed to extend targets and responsibilities to National and Provincial departments, Hlabisa Local Municipality's financial plan must take into account some outcomes when developing its budget. It is of vital importance that the municipality must perform the following:

- Improve municipal financial and administrative capacity by implementing competency norms and standards.
- Ensure that capital budgets are appropriately prioritised and fully involved in community consultation process around IDP, Budget and other related service delivery issues.
- Review the municipal expenditures to eliminate fruitless and wasteful expenditures.
- Ensure effective maintenance and rehabilitation of infrastructure.
- Ensure effective spending of grants for funding extension.

1.2 EXECUTIVE SUMMARY

In terms of section 28 (4) of the MFMA, the mayor of the Municipality must table an adjustment budget in the municipal Council accompanied by explanations on how the adjustment budget affects the annual budget, provide supporting documentation and motivates for any material changes to the annual budget. Paragraph (6) of that section however, forbid the Mayor to adjust tariffs and taxes except where required in terms of a financial recovery plan

1.3 OPERATING REVENUE AND EXPENDITURE FRAMEWORK

The operating budget summary provides information on both income and expenditure activities in line with the approved budget and the proposed adjustment budget for the year under- review and the following will be discussed:

1.3.1 Property rates

This refers to property rates income that the municipality collects as budgeted. The annual budget approved budget for property rates amounted to R300 000 and proposed budget adjustment has been increased to R403 000. This increase of R103 000. Is due to increase of residential.

1.3.2 Property rates penalties and collection charges

This refers to property rates penalties income that the municipality collects as budgeted. The annual budget approved budget for property rates penalties was R120 000 and has been reduced to R0.00 because the municipality don't charge penalties, There was a misallocation during final budget.

1.3.3 Service Charges

This refers to only to refuse removal income that the municipality collects as budgeted. The annual approved budget for service charges amounted to R 289 000 and the proposed budget adjustment has been reduced to R 21000.00. The slight decrease of approximately R268 000 is due to the few business that we have that pay their refuse removal, although the amount of R285 000 has been paid this financial year for refuse but it was for the previous financial year in

1.3.4 Rental of Facilities and Equipment

This refers to the rentals for municipalities facilities the municipality was budgeting R317 000. It has been reduced by R59000 now it is amounting to R258 000.

1.3.5 Interest Earned

This refers to the combination of monies invested by the municipality as well as its entity on various financial institutions both on call and fixed investments deposit accounts as well as interest on outstanding debtors.

1.3.5.1 External Investments

The approved budget for investment revenue was R450 000 and adjustments have been increased by R51000, Now the budget is amounting to R501 000 this is because of increase of our investments that we have.

1.3.5.2 Outstanding Debtors

Interest on outstanding debtors was R30 000 and the adjustment has increased by R3, 29000 now the adjusted budget is amounting to R359 475, The increase of this interest was because of miscalculated on final budget.

1.3.6 Fines

The approved budget for Fines was R2, 914m and adjustments have been proposed, the amount has been reduced with amount of R2. 834m the reason is the municipality was expecting the traffic tasting centre to operate by August 2013 but due to delays they promised to start by middle of march 2014. The adjustment now is sitting at R80 000

1.3.7 Licences and permits

The approved budget for licences and permits was R2, 364m and adjustment have been proposed, the amount has been reduced with amount of R1, 825m now the budget is sitting at R539 000. The reason is the municipality was expecting the traffic tasting centre to operate by August 2013 but due to delays they promised to start by middle of march 2014

1.3.8 Transfers Recognised- operational

This refers to operating grants gazetted during the year under-review by both National and Provincial Treasuries. The approved budget for these was R 44 260m and no adjustment has been made.

1.3.8.1 Transfers Recognised- Capital

This refers to Capital grants gazetted during the year under-review by National Treasury amounted to R12 829000. The approved budget for these was R12 188m excluding R641450 that was allocated for PMU fees under operational transfers now it is amounting to. The addition allocation from department sports and recreation for sport facilities amount is R17 25m

1.3.9 Other Own Revenue

Included on other own revenue are Bill Boards income, Sundry income, telephone costs recovered and sale of bid document etc. For this revenue source, an amount of R 162 000 was budgeted and adjusted is R6, 5m due the reason for this increase is because we have roll-over for electrification project rollover of R6, 035m. The additional amount is R6,3m.

1.3.10 Employee Related Costs

This refers to the salaries and benefits paid to employees. An amount of R21, 302m was budgeted and the proposed adjustment has been reduced to R 18, 501m. This is as a result of positions that were vacant for long time and other benefits has been reduced like over time but other new positions has been included on that amount of R18, 501m. There have also been positions which are deemed critical which have been approved by Council, These have had to be brought in onto the budget due to the critical nature and the risk the municipality is facing by not having a structure of this nature established.

1.3.11 Remuneration of Councillors

An amount of R 4, 7m was budgeted and no material adjustment has been made in this regard.

1.3.12 Dept Impairment

This refers to debtors that were wrongly calculated on our final budget it was R-324 000, now is Amounting to R310 000.

1.3.13 Depreciation and Asset Impairment

This refers to the provision of depreciation, amortisation and asset impairment as required by applicable standards that it must be provided for in line with asset management policy. An amount of R 3m was budgeted and no adjustments has been made in this regard.

1.3.14 Finance Charges

This refers to charges of machines rental this charges were never budgeted but now it is budgeted an amount of R200 000.

1.3.15 Other Materials

This refers to the budget of repairs and maintenance and other materials . The approved budget for Other materials R30 000 and repairs and maintenance R710 000 and adjustment was reduced on repairs and maintenance with amount of R110 000 now is sitting at R590 000 this amount for repairs are the internal repairs done by internal staff not consultants, for other materials was R30 000 and no adjustment has been made on other materials the total for both repairs and other materials is amounted to R650 000. The municipality has misallocated this two items on final budget now they are the one item

1.3.16 Other Expenditure

This refers to the other expenditures incurred by the municipality. An amount of R 9,801m was budgeted and this has been adjusted upward to R9, 993m due to demands on certain unavoidable programmes like (Valuation roll, Printing & stationery, staff training, ect.), . This being said however, other expenditure must be kept in line with monthly projections and

overspending is avoided. This category of expenditure also excludes expenditure on grants allocated to the municipality.

1.3.17 Transfers and Grants

This refers to the certain transfers non-cash, which the municipality will transfer to certain groups. The approved budget was R 9, 250m and the proposed adjustment is R 15, 395m which is due to the following:

- A slight increase of R6, 035m its roll-over from previous financial year and R110 000 it's funded internal.
- A slight increase of about R6, 145m in the provision of free basic services

1.3.18 Contracted Services

This refers to all contracted services to other parties that provide services on behalf of the municipality. The approved amount was R 890 000 and the proposed adjustment is R 2, 837m which is as a result mainly the increase in security expenditure and management contracts in line with existing contracts.

1.4 CAPITAL BUDGET

The approved budget for capital budget was R 13, 538m and the proposed adjusted budget is R15, 334m which is as a result roll-over of R7 15506 on MIG and addition of R1, 725m for sport and recreation. The total of capital adjusted budget is sitting at R15, 334m and the departments have indicated that the budget will be spent by the end of the financial year.

1.4.1 Capital Transfers

1.4.1.1 National and Provincial

This refers to transfers from National Treasury for capital projects. The budget was R12, 188m, Now it move to R13, 913m. This is due to the following:

- An amount of R1, 725m that has been budgeted for addition of project Infrastructure - Sports and recreation projects.

1.4.1.2 Internal Funding

The internal funded capital budget has been decreased from R1, 350m to R7 06000 and due to roll – over which amounts to R7 15506 that results to internal funding to R1, 422m.

PART 2

2.1 Effect of the adjustment budget on provision of basic services

The effect of these adjustments will ensure accelerated basic service delivery to all stakeholders as envisaged on the Integrated Development Plan of the Municipality. This adjustment deals mainly with the challenges identified in the IDP and it seeks to address some of these challenges going forward.

2.2 Effect of the adjustments budget on service delivery and budget implementation plan as well as on service delivery agreements and long term financial sustainability of the District

These adjustments will affect the overall performance and therefore adjustments to the service delivery targets and performance indicators must be undertaken. Service delivery agreements will have to be adjusted and that the adjusted budget must promote long term financial sustainability of the Municipality.

2.3 Adjustment Budget Tables

The adjustment budget tables consist of:

- Table B1- Adjustment Budget Summary
- Table B2- Adjustment Budget Financial Performance (standard classification)
- Table B3- Adjustment Budget Financial Performance (revenue and expenditure by municipal vote)
- Table B4- Adjustment Budget Financial Performance (revenue and expenditure)
- Table B5- Adjustment Capital Expenditure Budget by vote and funding
- Table B6- Adjustment Budget Financial Position
- Table B7- Budget Cash Flows
- Table B8- Cash backed reserves/ accumulated surplus reconciliation
- Table B9- Asset Management
- Table B10- Basic service delivery measurement

All comments made in the operating revenue and expenditure framework can be viewed from these budget adjustments tables and comparisons can be made as well as critical analysis and conclusions made thereto.

2.4 Adjustments to budget funding

This refers to a narrative summary of the impact of the adjustment budget on the funding of operating and capital expenditure, financial plans, reserves and financial sustainability of the Municipality. Overall, the adjustments budget is funded by realistically anticipated revenues as well as grant funding

which is gazetted. This ensures the financial sustainability of the Municipality and that both the operating and capital expenditure is funded appropriately and that financial plans of the Municipality are well funded.

The collection rate has also been revised in view of the addition of residentials as well as continuous implementation of the credit control and debt management policy.

Table B4- Adjustment Budget Financial Performance (revenue and expenditure

Description	Ref	Budget Year 2013/14									Budget Year +1 2014/15	Budget Year +2 2015/16
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjus.	Total Adjus.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands	1	A	A1	B	C	D	E	F	G	H		
Revenue By Source												
Property rates	2	300	-	-	-	-	-	103	103	403	390	340
Property rates - penalties & collection charges		120						(120)	(120)	-	126	132
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	289	-	-	-	-	-	(268)	(268)	21	320	319
Service charges - other		-						-	-	-		
Rental of facilities and equipment		317						(59)	(59)	258	355	361
Interest earned - external investments		450						410	410	860	460	4,870
Interest earned - outstanding debtors		30						(30)	(30)	-	32	33
Dividends received		-						-	-	-		
Fines		2,914						(2,834)	(2,834)	80	3,002	310
Licences and permits		2,364						(1,825)	(1,825)	539	2,501	2,600
Agency services		-						-	-	-		
Transfers recognised - operating		44,260						-	-	44,260	56,128	63,266
Other revenue	2	162	-	6,035	-	-	-	365	6,401	6,563	140	148
Gains on disposal of PPE		1,400						4,400	4,400	5,800		
Total Revenue (excluding capital transfers and contributions)		52,607	-	6,035	-	-	-	142	6,177	58,784	63,453	72,380
Expenditure By Type												
Employee related costs		21,302	-	-	-	-	-	(2,801)	(2,801)	18,501	26,485	28,052
Remuneration of councillors		4,756						-	-	4,756	5,041	5,343
Debt impairment		(324)						324	324	-		
Depreciation & asset impairment		3,000	-	-	-	-	-	-	-	3,000	4,500	6,500
Finance charges								200	200	200	774	950
Bulk purchases		-	-	-	-	-	-	-	-	-	-	-
Other materials		30						620	620	650	1,280	3,131
Contracted services		890	-	-	-	-	-	1,947	1,947	2,837	1,330	1,800
Transfers and grants		9,250		6,035				110	6,145	15,395	15,400	10,600
Other expenditure		9,801	-	-	-	-	-	502	502	10,303	1,850	2,700
Loss on disposal of PPE								-	-	-		
Total Expenditure		48,705	-	6,035	-	-	-	902	6,938	55,643	56,660	59,076
Surplus/(Deficit)		3,902	-	-	-	-	-	(760)	(760)	3,142	6,793	13,304
Transfers recognised - capital		12,188					1,725		1,725	13,913	13,909	14,680
Contributions										-		
Contributed assets										-		
Surplus/(Deficit) before taxation		16,089	-	-	-	-	1,725	(760)	965	17,054	20,702	27,984
Taxation										-		
Surplus/(Deficit) after taxation		16,089	-	-	-	-	1,725	(760)	965	17,054	20,702	27,984
Attributable to minorities										-		
Surplus/(Deficit) attributable to municipality		16,089	-	-	-	-	1,725	(760)	965	17,054	20,702	27,984
Share of surplus/ (deficit) of associate										-		
Surplus/ (Deficit) for the year		16,089	-	-	-	-	1,725	(760)	965	17,054	20,702	27,984

2.5 Adjustments to Councillors and employee benefits

Due to the number of vacant posts that need to be filled this current year, employee related costs have been adjusted downwards this being said however, the Municipality remain within the National Treasury Threshold or employee related costs.

Councillors (Political Office Bearers plus Other)									
Basic Salaries and Wages	3,584						-	-	3,584
Pension and UIF Contributions							-	-	-
Medical Aid Contributions							-	-	-
Motor Vehicle Allowance	896						-	-	896
Cellphone Allowance	206						-	-	206
Housing Allowances							-	-	-
Other benefits and allowances	70						-	-	70
Sub Total - Councillors	4,756	-			-		-	-	4,756
% increase		(0)							-
Senior Managers of the Municipality									
Basic Salaries and Wages	1,859						(103)	(103)	1,756
Pension and UIF Contributions	23						(5)	(5)	18
Medical Aid Contributions								-	-
Overtime								-	-
Performance Bonus	434						(434)	(434)	0
Motor Vehicle Allowance	558						(141)	(141)	417
Cellphone Allowance	130						73	73	203
Housing Allowances	431						(153)	(153)	278
Other benefits and allowances	209						(32)	(32)	177
Payments in lieu of leave	-							-	-
Long service awards								-	-
Post-retirement benefit obligations								-	-
Sub Total - Senior Managers of Municipality	3,644	-	-		-		(795)	(795)	2,849
% increase		(0)							(0)
Other Municipal Staff									
Basic Salaries and Wages	11,451						(919)	(919)	10,532
Pension and UIF Contributions	1,530						(356)	(356)	1,174
Medical Aid Contributions	1,138						(500)	(500)	638
Overtime	1,098						(435)	(435)	663
Performance Bonus	-						663	663	663
Motor Vehicle Allowance	633						(35)	(35)	598
Cellphone Allowance	155						-	-	155
Housing Allowances	1,069						(285)	(285)	784
Other benefits and allowances	691						(264)	(264)	427
Payments in lieu of leave	-							-	-
Long service awards								-	-
Post-retirement benefit obligations								-	-
Sub Total - Other Municipal Staff	17,766	-	-	-	-	-	(2,131)	(2,131)	15,634
% increase									
Total Parent Municipality	26,165	-	-	-	-	-	(2,926)	(2,926)	23,239

2.6 Adjustments to capital expenditure

A list of all adjusted capital programmes and projects of the municipality aligned with the Integrated Development Plan of the Municipality is attached in the supporting documentation.

Total Capital Expenditure - Vote		13,538	-	716	-	-	1,725	(644)	1,797	15,334	17,269	18,286
Capital Expenditure - Standard												
<i>Governance and administration</i>		650	-	-	-	-	-	(144)	(144)	506	100	150
Executive and council		400						(44)	(44)	356		
Budget and treasury office		250						(100)	(100)	150	100	150
Corporate services										-		
<i>Community and public safety</i>		4,662	-	716	-	-	1,725	(500)	1,941	6,603	1,900	2,000
Community and social services		850						-	-	850		
Sport and recreation		3,112		716			1,725		2,441	5,553		
Public safety		700						(500)	(500)	200	1,900	2,000
Housing										-		
Health										-		
<i>Economic and environmental services</i>		8,225	-	-	-	-	-	-	-	8,225	14,769	15,786
Planning and development		8,225						-	-	8,225	14,769	15,786
Road transport										-		
Environmental protection										-		
<i>Trading services</i>		-	-	-	-	-	-	-	-	-	500	350
Electricity										-		
Water										-		
Waste water management										-		
Waste management										-	500	350
<i>Other</i>										-		
Total Capital Expenditure - Standard	3	13,538	-	716	-	-	1,725	(644)	1,797	15,334	17,269	18,286
Funded by:												
National Government		12,188							-	12,188	14,769	14,680
Provincial Government							1,725		1,725	1,725		
District Municipality									-	-		
Other transfers and grants									-	-		
Total Capital transfers recognised	4	12,188	-	-	-	-	1,725	-	1,725	13,913	14,769	14,680
Public contributions & donations									-	-		
Borrowing									-	-		
Internally generated funds		1,350		716				(644)	72	1,422	2,500	3,606
Total Capital Funding		13,538	-	716	-	-	1,725	(644)	1,797	15,334	17,269	18,286

2.7 Adjustments Cash Flow Statement

KZN274 Hlabisa - Table B7 Adjustments Budget Cash Flows -

Description	Ref	Budget Year 2013/14									Budget Year +1 2014/15	Budget Year +2 2015/16
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands		A	3 A1	4 B	5 C	6 D	7 E	8 F	9 G	10 H		
CASH FLOW FROM OPERATING ACTIVITIES												
Receipts												
Ratepayers and other		3,796						5,580	5,580	9,375	7,461	4,911
Government - operating	1	44,260						-	-	44,260	56,128	63,266
Government - capital	1	12,188						716	716	12,903	13,909	14,680
Interest		450						287	287	737	460	487
Dividends									-	-		
Payments												
Suppliers and employees		(37,589)						(2,060)	(2,060)	(39,649)	(29,963)	(32,052)
Finance charges								(200)	(200)	(200)	(554)	(700)
Transfers and Grants	1	(9,250)						(6,035)	(6,035)	(15,285)	(15,400)	(10,600)
NET CASH FROM/(USED) OPERATING ACTIVITIES		13,855	-	-	-	-	-	(1,713)	(1,713)	12,142	32,041	39,992
CASH FLOWS FROM INVESTING ACTIVITIES												
Receipts												
Proceeds on disposal of PPE									-	-		
Decrease (Increase) in non-current debtors									-	-		
Decrease (increase) other non-current receivables									-	-		
Decrease (increase) in non-current investments									-	-		
Payments												
Capital assets		(13,538)					(1,725)	644	(1,081)	(14,619)	(17,269)	(19,280)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(13,538)	-	-	-	-	(1,725)	644	(1,081)	(14,619)	(17,269)	(19,280)
CASH FLOWS FROM FINANCING ACTIVITIES												
Receipts												
Short term loans									-	-		
Borrowing long term/refinancing									-	-		
Increase (decrease) in consumer deposits									-	-		
Payments												
Repayment of borrowing									-	-		
NET CASH FROM/(USED) FINANCING ACTIVITIES		-	-	-	-	-	-	-	-	-	-	-
NET INCREASE/ (DECREASE) IN CASH HELD		317	-	-	-	-	(1,725)	(1,069)	(2,794)	(2,477)	14,772	20,712
Cash/cash equivalents at the year begin:	2	56							6,151	6,207		
Cash/cash equivalents at the year end:	2	373					(1,725)	(1,069)		3,731	14,772	20,712

3. Recommendations

It is recommended **THAT**

- That the 2013/2014 adjustments budget be approved and adopted.
- It be noted that the adjustments budget is being tabled by the Mayor in terms of section 28 (2) (b) and (d), as well as section 28 (4) of the MFMA.

- It be noted that the adjustments budget is fully compliant with section 28 (6) of the MFMA in that municipal tax and tariffs will not increase as a result of the adjustments budget.
- Upon approval of the adjustments budget, Manager Budgets & Compliance ensures that, in terms of section 22 (b) of the MFMA, the adjustments budget is submitted in both printed and electronic formats to the National Treasury and Provincial Treasury.
- Upon approval of the adjustments budget, Chief Financial Officer ensures that, in terms of section 22 (b) of the MFMA, the adjustments budget is submitted in both printed and electronic formats to the National Treasury and Provincial Treasury.